Gold’s 50-Year Price Explosion

Originally posted on July 27, 2020.

Part I

I was there from the start. In early August 1971, I had just joined internationally focused research and trading firm Model Roland & Co.

On 15 August 1971, President Nixon shocked the world by announcing that the U. S. would no longer officially trade dollars for gold. At that time, gold’s fixed price was $35/oz.

By 1980, gold would hit an astronomical $800/oz.

OK then, back to Model and the firm’s wonderful head partner Leo Model. From my first day onboard at Model, I started covering a bevy of major Boston institutional accounts. I was 30 years old, and I would become friends with analysts, portfolio managers and traders at Wellington Management, Fidelity Investments, First National Bank of Boston, State Street Bank, State Street Research, Endowment Management, Studley Shupert, and Keystone Management through my entire investment career on Federal Street in Boston.

I immediately realized that international trading (including gold shares and arbitrage), as well as monetary strategy and world currencies, was going to be my focus from August 1971 onward.

Five decades later, these subjects remain today my daily focus. I have been a buyer of gold, silver, and Swiss francs for decades, and I have never sold a single one of my positions.

By 1972 I was off to London on a mission for Leo Model. My job was to produce a strategy report for Model, Roland & Co on the international gold shares market. It took eight days in London to meet all the insiders with whom Mr. Model had arranged visits. Except for a single, most unpleasant glitch, (understatement) all went well.

I went on to submit a 25-page strategy report to Mr. Model. Shortly thereafter I was informed that Mr. Model had sent my report along to the firm’s chief monetary guru, one Edward M. Bernstein, one of the architects of the Bretton Woods monetary agreement.

Remember, I was 31 years old, and quite terrified to hear that EMB had been brought into the loop.

On 7 August 1972, I received the surprise of my young life: EMB wrote back on his corporate letterhead:

> *I think the collection of papers on gold is excellent. It seems objective and pointed. I have no suggestions. Put me on the list to get what you put out on gold.*
>
> *Sincerely,*
>
> *Edward M. Bernstein*

Although I did not know it at the time, a year later, I would no longer be at Model, Roland.

Check back in with richardcyoung.com for my introduction Part II and the kickoff of our industry-leading precious metals, currencies, monetary madness, fed maleficence and dollar destruction weekly update.

Warm regards,

Dick

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Every Investor Must Have a 5/10% Gold Hedge

Originally posted August 11, 2020.

Jeff Deist of *LewRockwell.com* writes abridged:

> *Fed Bugs are people with a faith-based belief in the power of central banks (and central bankers) to engineer economic growth using "monetary policy, "despite decades of history and current evidence to the contrary. They believe tinkering with inputs and rates and velocity and flows somehow makes us richer in terms of productivity, goods, and services. They believe in financial alchemy, as economist Nomi Prins puts it, rather than precious metals.*
>
> *They believe paper has value so long as government issues it and legislates its use.*
>
> *Central bankers almost by definition are Fed Bugs, but so are most monetary economists, financial journalists, and politicians. And they all hate gold with a passion.*
>
> *The reasons why are multifarious, but ultimately flow from their fundamental resentment of any money they do not control and cannot design. Central planning requires central money, and gold stands apart by it very decentralized nature. It is indifferent to human conceptions, and can be discovered and summoned from the earth only with tremendous risk and effort. It cannot easily be manipulated or destroyed, and its value cannot be decreed (though they try mightily). It is unchanging, unyielding, and stubbornly at odds with the political visions of Fed Bugs.*

And so they hate it.

Gold quietly serves as a lingering rebuke of the entire political fiat money project—even as central banks are forced by circumstances to buy and hold it as collateral, as the ultimate hard currency and liquid asset for their balance sheets. In fact, central banks steadily bought or repatriated huge amounts of physical gold in recent years, despite the supposedly strong world economy prior to the Covid crisis.

Nixon eliminated the right of foreign governments to redeem US dollars for gold in 1971.

Jeff Deist is president of the Mises Institute, a tax attorney, and a former staffer for Ron Paul.

Your Portfolio Could Use This Investment as a Powerful Insurance Policy

There are very few real counterbalancers available in an asset bubble like the one being blown today by the Fed and other central banks.

One investment I have found to be reasonably reliable as a counterweight insurance policy is precious metals, specifically gold and silver.

Is there downside risk in buying metals? Of course. Here’s how I previously explained that risk:

> *Relative to gold, silver is cheap. The higher the gold/silver ratio, the cheaper silver is. The historical gold/silver ratio has been 15:1. Today, it is 53:1. Central banks do not own silver, which they could dump on the world market to depress prices. This is a big plus for silver. Silver trades at about $32/oz. The structural low is about $10/oz. There conceivably is a significant downside risk. My strategy is to pick away slowly over the next few years, hoping that I'll get an average price on my purchase well below $32/oz. Who knows? Silver and gold are insurance policies that I hope I will not need. What I buy, I will not sell. And I am buying with the hope that the price of my insurance will decline, not increase. Year to year, I am a hesitant, reluctant seller of any investment.*

Today, the gold/silver ratio is over 90.

I want you to think of the silver and gold in your portfolio as an insurance policy. If it goes down, you may be better off because the prices of your stocks are going up.

If you would like to learn more about how Richard C. Young & Co., Ltd. views precious metals as a portfolio counterbalancer, click here to sign up for our monthly client letter. The letter is written by my son, Matt Young, who has led our family-run investment counsel firm for over twenty years.

What the Iran Situation Means

for Gold

Since the end of 2019, gold prices have been on a breakout trajectory. Now, in response to rising tensions with Iran, things are getting very interesting.

The news that the United States had bombed Iranian Major General Qassem Soleimani increased the perception of risk in the Middle East, and drove the price of gold even higher.

I have always suggested to investors that they maintain a gold component in their portfolios, not as a road to riches, but as an insurance policy against inflation, disaster, and war. Typically when every other assets' price is falling, gold's is rising.

Here's how I explained it back in 1986:

> *Throughout history gold has been the money of last resort. Every central bank in the industrialized world holds gold as an international reserve asset. Countries like Switzerland maintain a high percentage of gold holdings in relation to total money supply.*
>
> *What is the proper course to take in building a gold cornerstone for investment portfolios? Most individuals look to bullion coins, mining shares, and gold certificates from major banks. I like certificates when an individual has no interest whatsoever in gold and invests in gold strictly as a portfolio tool. Certificates also have appeal for institutional investors. Gold mining shares should not be used as a gold proxy for cornerstone positions.*
>
> *Gold share mutual funds should be considered in the stock fund section of one's portfolio, but not in the gold cornerstone section. Shares are subject to political and natural disruptions that invalidate their inclusion as gold*

cornerstone investments.

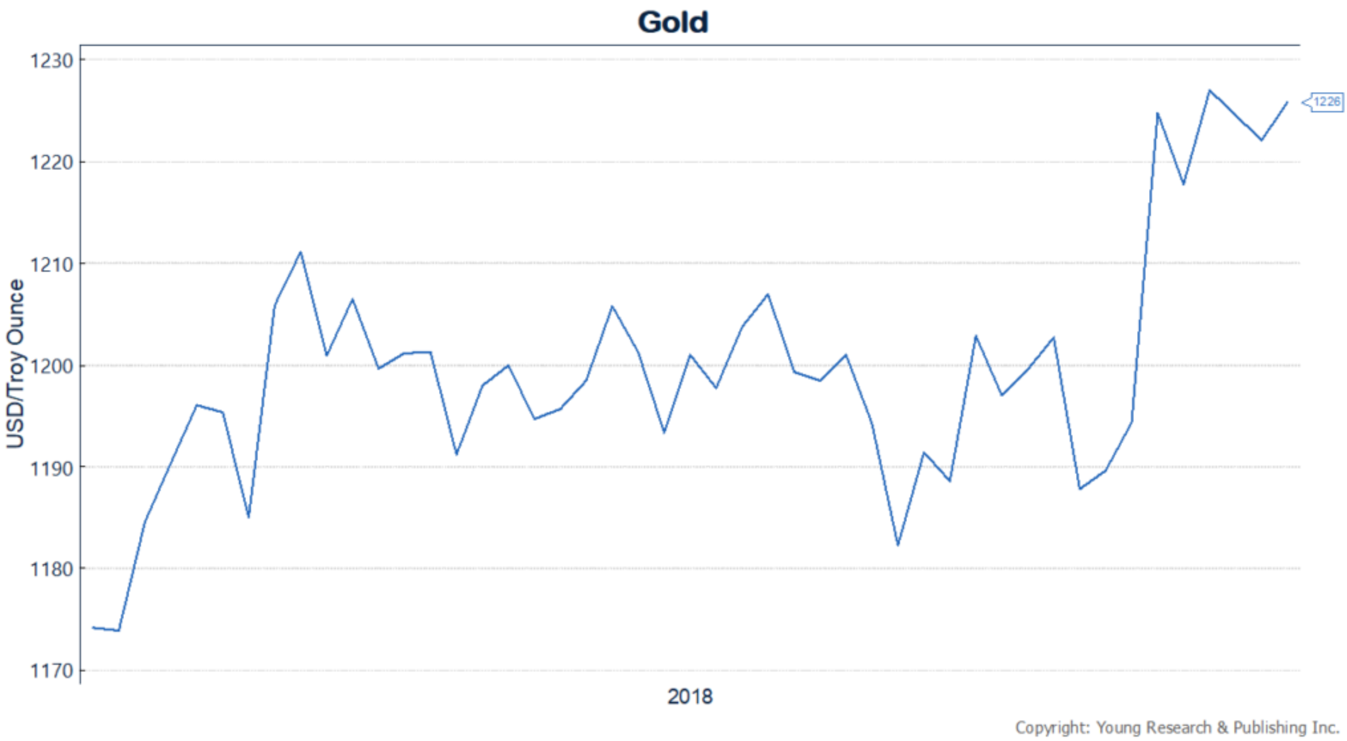
Since I wrote those words, a lot has changed in the way Americans can invest in gold. The creation of gold-backed ETFs was probably the most significant development. To learn more about how to invest in gold today, click here.

If you would like to understand how my family-run investment counsel firm uses precious metals to craft counterbalanced portfolios, sign up for Richard C. Young & Co., Ltd's monthly client letter. The letter is free, even for non-clients. You don't want to miss it.

Getting on the Map with Gold

I have been a longtime supporter of including gold in diversified portfolios. Gold is a safe-haven asset, an inflation and currency hedge, and a hedge against geopolitical turmoil and general market turbulence. It is an insurance policy of sorts. When everything else is down, gold is often up. Gold's counterbalancing effects can dull the pain of a market rout.

We have seen shades of gold's counterbalancing power over recent weeks as both stocks and bonds have sold-off while gold prices have risen.



I've long been an outspoken advocate of owning gold (I say owning because I buy gold and do not intend to sell). I've spoken on gold at conferences around the country, and I have researched and written about gold for nearly 50 years.

Becoming a reliable purveyor of gold insight was no easy trick. At 30 years old I was given a tough, international assignment, and then judged by some of the most demanding names in the business. In August of 2017, I told readers the story of the research breakthrough that put me on the gold map. Here it is for you:

> ### *London, 1971*
>
> *Portfolio strategy discussions and strategizing with the world's biggest institutional clients started for me with a mix of Boston, New York, and London research. My institutional research and trading days trace back to August 1971 with Model Roland & Co. The Boston offices were on Federal St. in the old financial district. I was 30 years old.*

Gold Research for Leo Model

By the summer of 1972, I was off to London on a gold/gold-shares research trip. This eye-opening experience gave me access and exposure to the largest players in the international gold market. I met contacts and gained background that would be invaluable to me, and thus to my clients, for the ensuing 45 years. Meetings at Samuel Montague and Consolidated Gold Fields, for example, allowed me to craft a detailed report for Leo Model on gold as a commodity as well as a monetary asset.

E.M.B. Comes Through

Mr. Model thought enough of my report to put it into the hands of no less than America's dean of international monetary experts, Edward M. Bernstein. This was a little unnerving for me as a 30-year old who was prepared for a sour outcome and a lecture from Herr Model, a demanding employer.

Well, much to my surprise, Mr. Model soon received a note from E.M.B., perhaps the #1 expert in the world on the intricacies of gold: "I think the collection of papers on gold is excellent. It seems objective and pointed. I have no suggestions. … Put me on the list to get what Model Roland puts out on gold."

That did it for me. I was on the map.